

## Sole Trader or Limited Liability Company?<sup>1</sup>

*If you are starting out in business for yourself,  
you will need to decide if you want to operate as a sole trader or company.*

**Sole traders** have unlimited liability, which means that you (the owner) are personally liable for all business taxes and debts. On the plus side, however, setting up as a sole trader is cheap and easy – all you need is a personal IRD number.

Also, despite what the name suggests, sole traders are allowed to employ many people. Just register as an employer with IRD when the business starts hiring staff.

The Ministry of Business, Innovation and Employment (MBIE) says sole traders starting out should search the Companies Office and the Intellectual Property Office to check if a business name they want to use is already protected or not. Once a name has been decided on, you might want to protect it by applying for a trademark. If a name is accepted for registration it is yours for 10 years, and at the end of that period the name can be renewed for another 10 years for an additional cost.

MBIE says many New Zealand businesses start as sole traders and then incorporate as a **limited liability company** as the business grows.

Incorporation costs \$115 plus GST.<sup>2</sup> There is also a fee of \$36 plus GST for filing the company's annual return to the Companies Office each year.

Many business owners form a company from day one to take advantage of the protection it offers against potential losses. Unlike sole traders, a limited liability company is a formal and legal entity, separate from its shareholders or owners, whose liability for losses is limited to the value of their shares in the company.

Another key difference between companies and sole traders is that companies pay a flat tax rate of 28 per cent. Sole traders, however, pay the same tax rates as employees (see <http://www.ird.govt.nz/how-to/taxrates-codes/rates/>).

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1 Extract from article “Saving money when starting up” by John Anthony, on Stuff.co.nz. Online: (<http://www.stuff.co.nz/business/small-business/10135431/Saving-money-when-starting-up>). Accessed 10<sup>th</sup> November 2015.

2 The figures quoted in this article were correct as at 11<sup>th</sup> July 2018.

## Claiming Business Expenses<sup>3</sup>

Self-employed people who use their home for business can claim tax back on part of their rates, insurance, power, telephone and internet and even mortgage interest costs.

If you are self-employed there are various reliefs, allowances and expenses you can claim to reduce your tax bill.

You will be able to claim on expenses such as accountancy, legal and professional fees, advertising, stationery, interest on business loans, credit card charges and the cost of any goods that are purchased to sell or provide a service.

You can also claim depreciation on business-related assets which is then deducted from income.

### Disclaimer<sup>4</sup>

This document contains general information. The information is not advice, and should not be treated as such. You must not rely on the information in this document as an alternative to seeking advice from an

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<sup>4</sup> This disclaimer was created using an [SEQ Legal](#) template.

appropriately qualified professional.